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by Sidney Davy Miller

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August 8, 2007  
Testimony of General Electric Company  
And its representative  
Before the House Tax Policy Committee  
Wednesday, August 8, 2007  
Presented by  
Clif Morehead, General Electric Company  
Lynn Gandhi, Miller Canfield Paddock & Stone, P.L.C.

Good morning Mr. Chairman, Representatives, and thank you for the opportunity to speak to you today on an extremely important issue to General Electric and other clients of Miller, Canfield, Paddock and Stone, in regards to an technical issue with the newly signed Michigan Business Tax that requires immediate action.

The corporate community in Michigan that is publicly traded and must report to the SEC, appreciates the Committee's quick response to the concerns that have been raised, and the Chairman's willingness to introduce correcting legislation on this issue so promptly.

As you are aware, immediately prior to the passage of SB 94, a key provision was removed during the final Conference Committee. This provision provided a "hold harmless" deduction to taxpayers with large cumulative temporary book/tax differences. Unless legislation is introduced, passed, and signed by the Governor prior to September 30, 2007, the third quarter close for most companies, many Michigan companies, as well

as publicly traded companies who do business in Michigan will be required to record a negative adjustment to their financial statements.

The provision was needed to address a very technical rule applicable to tax accounting, referred to as “FAS 109,” which requires companies to recognize deferred tax liabilities for items that were deducted for tax purposes faster than for book purposes or recorded income for book purposes before it is reported on their tax return. An example of such a difference is depreciation. Companies often depreciate assets differently for tax purposes than for book reporting or “GAAP” purposes. This difference must be accounted for on a company’s balance sheet under FAS 109. With the enactment of an income tax under the MBT, this difference will now generate an MBT tax liability, even though no Michigan benefit was ever received.

The original deduction permitted taxpayer’s to offset this liability, but delayed the start of the deduction until 2013, and then spread the deduction out over 10 years (2013 – 2022). This significantly diluted the state fiscal impact, with no immediate revenue impact to the state. While the commencement and time period are subject to some variance, it is important that any legislation enacted keep the time period for the deduction focused on a period that will allow companies to take the deduction in accordance with the governing accounting rules. If the time period over which companies may take the deduction is too long, or too far out in the future, the accounting

rules may not permit the full application of the deduction, making all our efforts here today moot.

Failure to reinsert such deduction will negatively affect the current net income of dozens of Michigan public companies, as well as dozens of other public companies who do business in Michigan. This result may be perceived negatively by Wall Street and the capital markets, and have potential negative consequences for the perception of Michigan's business climate.

We thank you for the time today to speak to you on this issue.

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